
NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date MAR 12 2014



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NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
New Orleans Area Habitat for Humanity, Inc.
New Orleans, Louisiana

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the New Orleans Area Habitat for Humanity, Inc. (a nonprofit organization) (the Organization) and its subsidiary, which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to consolidated financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial positions of the New Orleans Area Habitat for Humanity, Inc. as of June 30, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information on pages 23 and 24 is presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2013 on our consideration of the New Orleans Area Habitat for Humanity's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Post Lettwaste & Hutterville

New Orleans, Louisiana
November 25, 2013

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

ASSETS

	<u>2013</u>	<u>2012</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 3,070,349	\$ 2,525,581
Accounts receivable	215,273	120,192
Grants and pledges receivable	-	718,113
Investments	8,433,186	2,082,063
Mortgage notes receivable, current portion	231,133	171,172
Construction inventory	4,649,069	6,615,437
Asset held for sale	-	866,191
ReStore inventory	139,581	97,077
Prepaid expenses	53,715	38,160
Total current assets	<u>16,792,306</u>	<u>13,233,986</u>
<u>NON-CURRENT ASSETS</u>		
Mortgage notes receivable, net	3,860,946	3,457,800
Property and equipment, net	11,125,725	11,260,500
Loan costs, net	234,833	243,953
Deposits	2,975	2,332
Total non-current assets	<u>15,224,479</u>	<u>14,964,585</u>
<u>TOTAL ASSETS</u>	<u>\$ 32,016,785</u>	<u>\$ 28,198,571</u>

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 195,600	\$ 367,572
Notes payable, current	333,333	111,111
Other liabilities	164,412	123,908
Accrued remediation costs	-	128,092
Due to New Orleans Habitat Musicians Village, Inc.	628,102	628,102
Total current liabilities	<u>1,321,447</u>	<u>1,358,785</u>
<u>NOTES PAYABLE, LONG-TERM</u>	<u>3,405,563</u>	<u>3,738,889</u>
<u>NET ASSETS</u>		
Unrestricted	26,720,930	22,675,555
Temporarily restricted	568,845	425,342
Total net assets	<u>27,289,775</u>	<u>23,100,897</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 32,016,785</u>	<u>\$ 28,198,571</u>

The accompanying notes are an integral part of these consolidated statements.

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>REVENUE AND OTHER SUPPORT</u>			
Contributions	\$ 1,055,020	\$ 486,531	\$ 1,541,551
Home sale revenue, net of discount	1,831,346	-	1,831,346
Grant income	96,368	1,387,753	1,484,121
Gain on settlement	6,532,224	-	6,532,224
Interest income on mortgage notes	236,099	-	236,099
Investment loss, including change in unrealized depreciation of investments	(169,645)		(169,645)
ReStore income	1,311,582	-	1,311,582
Gain on the sale of mortgage notes	492,665	-	492,665
Other income	590,910	-	590,910
Total revenues and other support	<u>11,976,569</u>	<u>1,874,284</u>	<u>13,850,853</u>
Net assets released from restrictions	<u>1,730,781</u>	<u>(1,730,781)</u>	<u>-</u>
Total revenues, support, and assets released from restrictions	<u>13,707,350</u>	<u>143,503</u>	<u>13,850,853</u>
<u>EXPENSES</u>			
Program services	8,795,164	-	8,795,164
Management and general	490,480	-	490,480
Fundraising	376,331	-	376,331
Total expenses	<u>9,661,975</u>	<u>-</u>	<u>9,661,975</u>
<u>CHANGE IN NET ASSETS</u>	<u>4,045,375</u>	<u>143,503</u>	<u>4,188,878</u>
Net assets, beginning of year	<u>22,675,555</u>	<u>425,342</u>	<u>23,100,897</u>
Net assets, end of year	<u><u>\$ 26,720,930</u></u>	<u><u>\$ 568,845</u></u>	<u><u>\$ 27,289,775</u></u>

The accompanying notes are an integral part of this consolidated statement.

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>REVENUE AND OTHER SUPPORT</u>			
Contributions	\$ 1,405,315	\$ 278,521	\$ 1,683,836
Home sale revenue, net of discount	1,824,548	-	1,824,548
Grant income	-	1,117,779	1,117,779
Tax credit income	783,777	-	783,777
Interest income on mortgage notes	246,369	-	246,369
Investment income	7,060	-	7,060
ReStore income	662,977	-	662,977
Gain on the sale of mortgage notes	958,002	-	958,002
Other income	269,007	-	269,007
Total revenues and other support	<u>6,157,055</u>	<u>1,396,300</u>	<u>7,553,355</u>
Net assets released from restrictions	<u>1,514,278</u>	<u>(1,514,278)</u>	<u>-</u>
Total revenues, support, and assets released from restrictions	<u>7,671,333</u>	<u>(117,978)</u>	<u>7,553,355</u>
<u>EXPENSES</u>			
Program services	6,341,307	-	6,341,307
Management and general	493,646	-	493,646
Fundraising	376,338	-	376,338
Total expenses	<u>7,211,291</u>	<u>-</u>	<u>7,211,291</u>
<u>CHANGE IN NET ASSETS</u>	460,042	(117,978)	342,064
Net assets, beginning of year	<u>22,215,513</u>	<u>543,320</u>	<u>22,758,833</u>
Net assets, end of year	<u>\$ 22,675,555</u>	<u>\$ 425,342</u>	<u>\$ 23,100,897</u>

The accompanying notes are an integral part of this consolidated statement.

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

	Program Services	Management and General	Fundraising	Total
Cost of homes sold	\$ 2,749,027	\$ -	\$ -	\$ 2,749,027
Cost of goods sold - inventory and other	632,832	-	-	632,832
Contract labor	256,468	113	-	256,581
Dumpsters/portable buildings	54,432	-	-	54,432
Depreciation	332,512	-	-	332,512
Donation	203,212	-	-	203,212
Donation of Music Village streets	2,009,088	-	-	2,009,088
Equipment rental	8,220	-	-	8,220
Employee benefits	127,598	33,695	27,344	188,637
Insurance	116,762	4,342	4,496	125,600
Interest	28,964	-	-	28,964
Inventory adjustment	102,453	-	-	102,453
Maintenance	93,104	-	-	93,104
Marketing	104,352	-	37,908	142,260
Merchandise	-	-	1,736	1,736
Merchant and bank fees	38,025	-	-	38,025
Other expenses	43,345	-	19,299	62,644
Payroll taxes	74,817	24,714	14,835	114,366
Postage	52,396	1,142	21,730	75,268
Printing	18,737	3,649	2,982	25,368
Professional services	189,197	78,634	30,799	298,630
Remediation costs	1,433	-	-	1,433
Rent	48,023	14,175	14,175	76,373
Repairs and building supplies	30,793	-	-	30,793
Salaries	870,966	315,383	183,230	1,369,579
Security	44,443	-	-	44,443
Supplies	46,251	9,163	8,850	64,264
Tithe	20,000	-	-	20,000
Telephone and communication	77,866	2,642	3,262	83,770
Tools and equipment	6,401	-	-	6,401
Travel and training	3,120	252	3,909	7,281
Utilities	51,713	(72)	(72)	51,569
Vehicle expense	130,445	-	176	130,621
Vista/Americorps	156,852	-	-	156,852
Volunteers	126	-	-	126
Workers' compensation	71,191	2,648	1,672	75,511
Total	\$ 8,795,164	\$ 490,480	\$ 376,331	\$ 9,661,975

The accompanying notes are an integral part of this consolidated statement.

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.

NEW ORLEANS, LOUISIANA

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2012

	Program Services	Management and General	Fundraising	Total
Cost of homes sold	\$ 2,435,762	\$ -	\$ -	\$ 2,435,762
Cost of goods sold - inventory and other	310,776	-	-	310,776
Contract labor	302,490	-	-	302,490
Dumpsters/portable buildings	48,277	-	-	48,277
Depreciation	341,891	-	-	341,891
Donation	311,136	-	-	311,136
Equipment rental	13,024	-	-	13,024
Employee benefits	106,904	32,906	32,029	171,839
Insurance	200,969	5,246	5,245	211,460
Interest	29,103	-	-	29,103
Inventory adjustment	(14,731)	-	-	(14,731)
Maintenance	135,074	-	-	135,074
Marketing	42,360	-	32,092	74,452
Merchant and bank fees	29,124	-	-	29,124
Other expenses	8,822	20	(4,918)	3,924
Payroll taxes	75,454	25,520	13,691	114,665
Postage	7,790	242	48,341	56,373
Printing	10,586	833	1,000	12,419
Professional services	329,927	66,542	44,468	440,937
Remediation costs	148,719	-	-	148,719
Rent	72,923	19,100	18,900	110,923
Repairs and building supplies	17,673	(2,450)	-	15,223
Salaries	807,752	326,270	172,095	1,306,117
Security	74,437	-	-	74,437
Supplies	29,081	8,299	3,205	40,585
Tithe	5,000	-	-	5,000
Telephone	67,845	6,915	7,375	82,135
Tools and equipment	20,373	-	-	20,373
Travel and training	928	761	1,792	3,481
Utilities	79,328	28	28	79,384
Vehicle expense	118,896	-	-	118,896
Vista/Americorps	131,955	-	-	131,955
Volunteers	1,584	-	-	1,584
Workers' compensation	40,075	3,414	995	44,484
Total	\$ 6,341,307	\$ 493,646	\$ 376,338	\$ 7,211,291

The accompanying notes are an integral part of this consolidated statement.

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ 4,188,878	\$ 342,064
Adjustment to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation and amortization	332,512	332,771
Realized gain on sale of investment	(60,000)	-
Unrealized loss on investments	334,159	-
(Gain)/loss on disposal of equipment	(337,837)	(3,400)
Gain on sale of mortgage notes receivable	(492,665)	(958,002)
Sales of homes to participants	(1,831,346)	(1,813,208)
Changes in assets and liabilities		
Accounts receivable	(95,081)	237,327
Grants and pledges receivable	718,113	(418,507)
Construction inventory	1,966,368	45,095
ReStore inventory	(42,504)	(39,086)
Deposits	(643)	918
Prepaid expenses	(6,435)	(3,211)
Accounts payable	(171,972)	(347,976)
Other liabilities	40,504	22,100
Accrued remediation costs	(128,092)	(2,893,688)
Net cash provided by (used in) operating activities	<u>4,413,959</u>	<u>(5,496,803)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(1,061,022)	(2,652,777)
Proceeds from sales of property and equipment	2,067,313	4,000
Proceeds from mortgage notes receivable	2,052,364	4,928,523
Purchase of mortgages notes receivable	(191,460)	-
Proceeds from investments	360,000	275,597
Purchase of investments	(6,985,282)	(11,471)
Change in due to New Orleans Area Musicians Village	-	628,102
Net cash provided by (used in) investing activities	<u>(3,758,087)</u>	<u>3,171,974</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Payments on notes payable	(111,104)	-
Net cash used in investing activities	<u>(111,104)</u>	<u>-</u>
<u>NET CHANGE IN CASH AND CASH EQUIVALENTS</u>	544,768	(2,324,829)
Cash and cash equivalents, beginning of year	<u>2,525,581</u>	<u>4,850,410</u>
Cash and cash equivalents, end of year	<u>\$ 3,070,349</u>	<u>\$ 2,525,581</u>

The accompanying notes are an integral part of these consolidated statements.

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

1. Nature of Activities

New Orleans Area Habitat for Humanity, Inc. (Habitat) and its controlled subsidiary NOAHH MC, Inc. (MC) (collectively, the Organization) are each 501(c) (3) exempt organizations. Habitat, which was incorporated in the state of Louisiana in 1983 and is an ecumenical Christian based housing ministry that seeks to eradicate poverty housing and to make safe, decent, affordable housing a matter of conscience and action, is an independent affiliate of Habitat for Humanity International, Inc. The Organization's service area includes Orleans, St. Bernard, Jefferson, Plaquemines, and St. Charles Parishes. MC was incorporated in the state of Louisiana in March 2009. Its exclusive purpose is to benefit and support Habitat to the extent such support is a charitable purpose.

The Organization builds homes in partnership with volunteers, donors, communities and hard-working, low-income families. Habitat homes are sold to qualifying partner families at no profit through zero percent interest loans.

The Organization operates a retail establishment, the ReStore, which sells donated quality surplus building materials at prices significantly below retail. This allows the public to maintain or improve their homes. The proceeds from the ReStore are used to help further the mission of the Organization.

2. Summary of Significant Accounting Policies

Basis of accounting

The accompanying consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, revenues are recognized when earned and expenses are recorded when incurred. Contributions are recognized when received or unconditionally promised. In-kind donations are recognized at their fair market value when received.

Principles of consolidation

The consolidated financial statements include the financial statements of the Organization and its controlled subsidiary, MC. All significant intercompany balances and transactions have been eliminated in consolidation.

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

2. Summary of Significant Accounting Policies (continued)

Basis of presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets, as applicable: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. When a restriction is satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Use of estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates made in the preparation of these consolidated financial statements include the determination of the allowance for losses on loans, the valuation of mortgage notes receivable, valuation of property and equipment and accrued remediation costs. It is reasonably possible that the significant estimates used will change within the next year.

Income taxes

The Organization is a non-profit corporation that is exempt from federal income tax under Section 501 (c) (3) of the Internal Revenue Code and qualifies as an organization that is not a private foundation as defined in Section 509 (a) of the Code. It is exempt from Louisiana income tax under the Section 121(5) of Title 47 of the Louisiana Revised Statutes of 1950. The Organization paid no federal income tax for the years ended June 30, 2012 and 2011.

Accounting Standards Codification (ASC) *Accounting for Uncertainty in Income Taxes* policy, clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. It also clarifies the application of accounting for income taxes by defining a criterion that an individual tax position must meet for any part of the benefit of that position to be recognized in an entity's financial statements. The interpretation requires recognition and measurement of uncertain income tax positions using a "more-likely-than-not" approach. The adoption of the provisions of the interpretation had no material impact on the Organization's consolidated financial statements. The Organization's tax returns for the years ended June 30, 2012, 2011 and 2010 remain open and subject to examination by taxing authorities. Tax returns for the year ended June 30, 2013 have not yet been filed.

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

2. Summary of Significant Accounting Policies (continued)

Cash and cash equivalents

For purposes of reporting cash flows, cash consists of cash and cash equivalents. The Organization considers all money market investments, and other items having an original maturity of three months or less from the date of acquisition, to be cash equivalents.

Investments

Investments in marketable securities with readily determinable fair values are reported at their fair value based on available market quotes in the consolidated statements of financial position and as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or law. Unrealized gains that are restricted by donors are reported as increases in temporarily restricted net assets. Unrealized gains absent restriction and unrealized losses are reported as increases and decreases in unrestricted net assets.

Mortgage notes receivable

Mortgage notes receivable consist of non-interest bearing mortgage notes which are collateralized by real estate in the New Orleans area and payable in monthly installments over the life of the mortgage notes. The mortgage notes receivable are net of discounts, which represent the difference between the stated amount of the mortgage notes and the present values based on an imputed amount of interest. The discounts are amortized over the lives of the mortgage notes using the interest method. The imputed interest rates used approximate the rates that independent borrowers and lenders would have negotiated in a similar transaction. Mortgage notes receivable are considered past due if payments are more than thirty days late. All mortgage notes receivable are collateralized by residential property. Management believes that the values of such collateral are in excess of the mortgage notes receivable as of both June 30, 2013 and 2012, and therefore no allowance for losses has been provided.

Allowance for doubtful accounts

The Organization records an allowance for doubtful accounts for pledges and accounts receivable, if needed, based on the Organization's collection history.

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

2. Summary of Significant Accounting Policies (continued)

Construction inventory and cost of homes sold

Construction inventory consists of land, materials, and other costs associated with houses under construction. Construction in progress is recorded at cost. When homes are sold, costs of homes sold are considered program costs.

Inventory

Inventory is recorded at net realizable value.

Asset held for sale

In April, 2012, the Organization entered into a sale agreement, committing to sell a warehouse building in New Orleans for \$1,750,000, anticipated to close in February, 2013. The net book value of the warehouse of \$861,191 was classified as asset held for sale on the consolidated statement of financial position as of June 30, 2012. During the year ended June 30, 2013, the sale consummated as anticipated with the Organization recognizing a gain of \$337,837 which is included in other income in the consolidated statement of activities and changes in net assets.

Property and equipment

Property and equipment are recorded at cost when purchased and at their estimated fair market value when received as a donation. Expenditures for maintenance and repairs are charged against earnings as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The costs and accumulated depreciation of assets sold or retired are removed from the respective accounts and any resulting gain or loss is reflected in the change in net assets.

Loan costs

Loan costs consist of professional fees incurred as a result of entering into the notes payable. The costs are amortized over the term of the notes payable which is 360 months. At June 30, 2013 and 2012, accumulated amortization was \$38,759 and \$29,639, respectively.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support based on the existence and/or nature of any donor restrictions. Donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

2. Summary of Significant Accounting Policies (continued)

Donated materials and services

Donated assets are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor.

Contributed services are recorded when the services received require specialized skills that would otherwise be purchased if not provided by donation, or create or enhance a non-financial asset.

Functional expenses

Generally, expenses are charged to each program or function based on direct expenditures incurred. Expenditures not directly chargeable are allocated to programs or functions based on the estimated percentage of time spent by the Organization's employees or the space utilized.

Reclassifications

Certain amounts in the 2012 consolidated financial statements have been reclassified to conform to the 2013 presentation.

3. Investments

Investments consisted of the following at June 30:

	<u>2013</u>	<u>2012</u>
Certificates of deposit	\$1,676,867	\$1,661,580
Money market funds	245,053	120,483
Corporate bonds	2,123,304	-
Preferred securities	3,874,792	-
Common stocks	513,170	-
Stock subscription	-	300,000
	<u>\$8,433,186</u>	<u>\$ 2,082,063</u>

As of June 30, 2013, the Organization's investments had an accumulated unrealized loss of \$334,159 which is reflected in the fair market value of these investments as stated in these consolidated financial statements.

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

3. Investments (continued)

Money market funds are primarily invested in U.S. government securities. During the year ended June 30, 2011, the Organization paid \$300,000 to an agent for a stock subscription to purchase common stock in an initial public offering. The subscription was converted to stock in July 2011 and then sold during the year ended June 30, 2013 with a \$60,000 gain recognized and included in investment loss in the consolidated statement of activities and changes in net assets. The certificates of deposits have maturities ranging through June 2014.

4. Mortgage Notes Receivable

Mortgage notes receivable consisted of the following at June 30:

	<u>2013</u>	<u>2012</u>
Mortgage notes receivable	\$6,597,006	\$6,107,909
Unamortized discount based on imputed interest rates of 4.0% - 6.5%	<u>(2,504,927)</u>	<u>(2,478,937)</u>
	4,092,079	3,628,972
Current maturities	<u>(231,133)</u>	<u>(171,172)</u>
	<u>\$ 3,860,946</u>	<u>\$ 3,457,800</u>

At June 30, 2013, contractual maturities of mortgage receivables, net of discounts, were as follows:

Fiscal Year Ending June 30:	
2014	\$ 231,133
2015	156,122
2016	167,043
2017	175,087
2018	184,013

5. Construction Inventory

Construction inventory consisted of land, materials, and houses in various stages of completion at June 30:

	<u>2013</u>	<u>2012</u>
Construction in progress	\$ 4,250,032	\$ 4,158,166
Musician's Village Streets	-	2,009,088
Materials inventory and prepaid supplies	146,710	217,681
Lot inventory	<u>252,327</u>	<u>230,502</u>
	<u>\$ 4,649,069</u>	<u>\$ 6,615,437</u>

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

5. Construction Inventory (continued)

During the year ended June 30, 2013, the Organization donated the Musicians Village Streets to the City of New Orleans.

6. Property and Equipment

Property and equipment consisted of the following at June 30:

	<u>Useful Lives</u>	<u>2013</u>	<u>2012</u>
Buildings and land	32 - 40 years	\$11,348,474	\$11,336,903
Furniture and fixtures	3 - 7 years	310,955	256,019
Tools and equipment	2 - 7 years	424,229	370,357
Vehicles	5 years	262,204	262,204
		<u>12,345,862</u>	<u>12,225,483</u>
Accumulated depreciation		<u>(1,220,137)</u>	<u>(964,983)</u>
		<u>\$11,125,725</u>	<u>\$11,260,500</u>

7. Notes Payable

Notes payable consisted of the following at June 30:

	<u>2013</u>	<u>2012</u>
Note payable to a financial institution with interest at 1.0%, requiring quarterly interest payments until April 2016, at which time quarterly principal and interest payments of \$34,716 will begin until maturity in March 2039.	\$ 2,850,000	\$ 2,850,000
Note payable to Habitat for Humanity International, Inc. (HHI) (related party) without interest, requiring 36 monthly principal only payments of approximately \$27,778. All amounts due in February, 2016.	<u>888,896</u>	<u>1,000,000</u>
	3,738,896	3,850,000
Less current portion	<u>333,333</u>	<u>111,111</u>
	<u>\$ 3,405,563</u>	<u>\$ 3,738,889</u>

At June 30, 2013, principal payments for the five years which follow for the above notes payable are:

Fiscal Year Ending June 30:

2014	\$ 333,333
2015	333,333
2016	249,821
2017	111,056
2018	112,170

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

8. Remediation of Homes with Contaminated Sheetrock

The Organization purchases sheetrock to either use in construction of its homes, donate to others who need sheetrock for reconstruction of their homes, or sell at the ReStore. During fiscal year 2010, the Organization discovered that some of the sheetrock it purchased was contaminated Chinese sheetrock. The contaminated sheetrock caused issues with electrical systems, heating and air conditioning units, appliances and emitted an odor, as well as caused problems with other devices within the house. During 2011, the Organization began entering into "Remediation Agreements" with residents, whereby the Organization agreed to remediate the homes using Organization funds in return for the resident's assignment to the Organization of his rights to any claim against the sheetrock vendors, manufacturer and his homeowners' insurer. The Organization retained counsel to pursue these remedies. As of June 30, 2012, the Organization had a remaining accrual related to these costs of \$128,092 which was reflected in the accompanying consolidated statement of financial position. During the year ended June 30, 2013, the project was completed. In January 2013, the Organization received \$6,532,224 in partial settlement of the claims, resulting in a gain recorded in the consolidated statement of activities and changes in net assets.

9. Temporarily Restricted Net Assets

The temporarily restricted net assets are primarily restricted for the construction or financing of future houses sponsored by the individual contributors and are included in cash and cash equivalents.

10. In-kind Contributions and Services

In-kind contributions consist principally of contributed fixed assets, building materials, and supplies for use in the Organization's home building program or inventory for use in the ReStore. During 2013 and 2012, the Organization received goods and supplies with an estimated fair value of \$755,848 and \$544,322, respectively.

In 2013, over 14,000 people volunteered approximately 117,000 hours; in 2012, over 21,000 people volunteered approximately 171,000 hours to assist in the construction work. A valuation of their effort is not reflected in the consolidated financial statements since it does not meet the criteria for recognition.

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

11. Commitments and Contingencies

Lease Commitments

The Organization leased office space prior to its purchase and build out of its new headquarters which houses the Organization's offices, warehouse and ReStore. The former office space used for its headquarters was leased for \$4,750 per month on a month-to-month basis through March 31, 2013. Rent expense for the Organization's office for the years ended June 30, 2013 and 2012, was \$42,750 and \$57,000, respectively. At times, the Habitat rents residential space for temporary housing for its volunteers. The volunteers pay a modest fee to subsidize the expense. Warehouse space was also leased in six month intervals at \$1,000 per month prior to the Organization's move to its new location. Rent expense for other than office space was \$27,305 and \$47,302 during fiscal years 2013 and 2012, respectively.

During 2009, MC, as lessor, entered into a lease agreement, with the New Orleans Habitat Musicians Village, Inc., the lessee, for the right to lease the Ellis Marsalis Center (the Center) after its construction. This agreement calls for base rent of \$105,000 per year for years 1 through 7, then increasing to \$470,000 times an annual Consumer Price Index Factor for years 8 through 30. Additionally, the lease contains two 10 year extension options at fair market rental value. The Center was completed in August 2011 and the lease term began on January 1, 2012. Under the lease agreement, during the period October 1, 2015 through December 31, 2015, the lessee has an option to purchase the Center for \$9,550,000 or fair market value.

Option Agreement

On March 17, 2009, MC entered into an option agreement with a financial institution whereby during a four month period beginning approximately seven years after the date of the agreement, the financial institution can obligate the MC to purchase the financial institution's interest in its subsidiary, with which the MC has notes payable with, for \$5,000. If the financial institution does not exercise its option at the end of its option period, MC has the option during the subsequent 24 month period to exercise its option to purchase the financial institution's interest in its subsidiary, with which the MC had its notes payable with, for its fair market value as determined by the MC.

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

11. Commitments and Contingencies (continued)

Contingent Mortgage Notes Receivable

To encourage homeowners to fulfill their commitment to homeownership, second mortgage notes receivable (for the difference between the selling price and the estimated fair value at date of sale) are held by the Organization on most houses sold after March 1998. Mortgage note payments under these "soft" second mortgages are not due as long as the homeowners retain ownership and are current in their payments. If the homeowners are current on the first mortgage notes, then after certain specified years, the principal balances of the second mortgage notes will be reduced over various time periods so that at the end of the amortization period the principal balances of the mortgage notes will be zero. No amounts have been recorded for the second mortgages in the accompanying consolidated balance sheets.

Recourse Mortgage Notes

The Organization occasionally sells its non-interest bearing mortgage notes receivable. The sales have a provision which requires the Organization to repurchase the notes in the event of default. During 2013 and 2012, the Organization sold 25 and 81 mortgage notes receivable at their present values of \$1,433,840 and \$4,333,935, respectively. At June 30, 2013 and 2012, the total recourse mortgage notes receivable had face value of \$14,643,335 and \$14,218,679, respectively, and present values of \$8,811,529 and \$8,293,777. In the event the notes are repurchased, the Organization has the right to foreclose and resell the associated property.

Guarantees

In March 2009, the Organization entered into agreements with a local financial institution, in which the financial institution provided certain funds for the construction of the Center in return for approximately \$3,700,000 of income tax credits. In return, the Organization guaranteed the completion of the Center and lease so that the tax credits would be realized in the future. If the Center and lease were not completed and the tax credits became worthless, the Organization would reimburse the financial institution their loan of \$2,850,000 plus an additional \$850,000 to cover the loss of tax credits. In August 2011, the Center opened and began operating as a music venue and the lease term began on January 1, 2012. As of June 30, 2012, the Organization has applied for and received \$1,567,554 of tax credits with the State of Louisiana. As agreed, the Organization split the tax credit income with the New Orleans Habitat Musicians Village, Inc. and therefore recognized \$783,777 of net tax credit income in the accompanying consolidated statement of activities. As of June 30, 2013, the Organization has applied for additional tax credits. A determination as to the amount of the additional tax credits and approval has not yet been made; therefore no amounts have been recognized in these consolidated financial statements as of June 30, 2013.

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

12. Related Party Transactions

Several members of the Organization's board of directors and finance committee are high ranking officials of financial institutions who hold recourse mortgage notes that were purchased from the Organization (See Note 11).

During 2012, the Organization purchased shares of stock through an initial public offering of a financial institution that holds recourse mortgage notes purchased from the Organization, and whose president is a member of the Organization's finance committee. In July 2012, these shares of stock were sold (See Note 3).

13. Supplemental Disclosures of Cash Flow Information

During the years ended June 30, 2013 and June 30, 2012, non-interest bearing mortgage notes receivable of \$2,581,278 and \$2,558,000, respectively, with unamortized discount of \$749,932 and \$744,792, respectively, resulted from the sale of homes. In 2013 and 2012, construction materials with a fair market value of \$755,848 and \$544,322, respectively, were donated. Interest paid in 2013 and 2012 was \$28,964 and \$29,104, respectively.

During 2012, the Center as reflected in Note 11 above was completed. The Center's cost of \$8,451,797 was then transferred from construction inventory to property and equipment.

14. Financial Instruments and Credit and Market Risk Concentration

Financial instruments which are potentially subject to concentrations of credit risk consist principally of cash and cash equivalents, investments and mortgage notes receivable. Cash and cash equivalents are placed with high quality financial institutions to minimize risk. Investments consist of certificates of deposit and government securities. The certificates of deposit have been placed in increments up to \$250,000 with banks nationwide and are fully insured by the Federal Deposit Insurance Corporation (FDIC). Money market funds are primarily backed by U.S. government securities. Common stock, corporate bonds and preferred securities are primarily invested in large international corporations. The Organization's mortgage notes receivable base is limited to primarily New Orleans, Louisiana. Risk is mitigated in that homeowners insurance and flood insurance are required on all homes securing the mortgage notes.

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

14. Financial Instruments and Credit and Market Risk Concentration (continued)

The Organization maintains the majority of its cash at large national and regional financial institutions. The funds were either FDIC insured or were maintained in a sweep account that was collateralized at 102% of the market value of FNMA or government securities. At June 30, 2013 and 2012, uninsured cash balances totaled \$2,329,002 and \$1,670,767, respectively. The Organization has not experienced losses on these accounts and management believes the Organization is not exposed to significant risks on such accounts.

As of June 30, 2013, the Organization's money market funds, common stock, corporate bonds and preferred securities are held with a large national brokerage firm and are covered by Securities Investor Protection Corporation (SIPC) up to \$500,000. Excess SIPC coverage is purchased from an international insurance firm to cover amounts not covered under FDIC and SIPC limits.

15. Fair Value Measurements

Fair value is defined as the price that would be received by the Organization for an asset or paid by the Organization to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date in the Organization's principal or most advantageous market for the asset or liability. The fair value hierarchy requires the Organization to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 Measurements) and the lowest priority to unobservable inputs (Level 3 Measurements). The three levels of the fair value hierarchy are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

15. Fair Value Measurements (continued)

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

All investments of the Organization are valued using Level 1 inputs. Following is a description of the valuation methodologies used for assets measured at fair value.

Certificates of deposit: Stated at cost, plus accrued interest, which approximates fair value.

Money market funds: Stated at cost, plus accrued interest, which approximates fair value.

Common stocks: Stated at fair market value.

Corporate bonds: Stated at fair market value.

Preferred securities: Stated at fair market value.

Stock subscription: Stated at cost, which approximates fair value.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values.

Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

16. Benefit Plan

The Organization provides for a 401(k) contribution plan to all employees who are at least 21 years of age and has one year of service with the Organization. During the years ended June 30, 2013 and 2012, matching contributions to the contribution plan were \$21,034 and \$11,547, respectively.

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
NEW ORLEANS, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

17. Subsequent Events

Management has evaluated subsequent events through the date that the consolidated financial statements were available to be issued, November 25, 2013, and determined that there were no other items for disclosure.

SUPPLEMENTARY INFORMATION

SCHEDULE 1

**NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
CONSOLIDATING STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013**

	New Orleans Area Habitat for Humanity, Inc.	NOAHH MC, Inc.	Eliminations/ Reclassifications	Consolidated
	<u>ASSETS</u>			
<u>CURRENT ASSETS</u>				
Cash and cash equivalents	\$ 2,886,012	\$ 184,337	\$ -	\$ 3,070,349
Accounts receivable	109,654	158,058	(52,439)	215,273
Investments	8,433,186	-	-	8,433,186
Mortgage notes receivable, current portion	231,133	-	-	231,133
Construction inventory	4,649,069	-	-	4,649,069
ReStore inventory	139,581	-	-	139,581
Prepaid expenses	53,715	-	-	53,715
Due from New Orleans Area Musicians Village	104,880	40,000	(144,880)	-
Notes Receivable MC, current portion	6,650,000	-	(6,650,000)	-
Total current assets	<u>23,257,230</u>	<u>382,395</u>	<u>(6,847,319)</u>	<u>16,792,306</u>
<u>NON-CURRENT ASSETS</u>				
Mortgage notes receivable, net	3,860,946	-	-	3,860,946
Property and equipment, net	2,861,579	8,264,146	-	11,125,725
Loan costs, net	-	234,833	-	234,833
Deposits	2,975	-	-	2,975
Total non-current assets	<u>6,725,500</u>	<u>8,498,979</u>	<u>-</u>	<u>15,224,479</u>
<u>TOTAL ASSETS</u>	<u>\$ 29,982,730</u>	<u>\$ 8,881,374</u>	<u>\$ (6,847,319)</u>	<u>\$ 32,016,785</u>
	<u>LIABILITIES AND NET ASSETS</u>			
<u>CURRENT LIABILITIES</u>				
Accounts payable	\$ 108,350	\$ 139,689	\$ (52,439)	\$ 195,600
Notes payable, current	333,333	-	-	333,333
Other liabilities	88,579	75,833	-	164,412
Due to New Orleans Area Musicians Village	772,982	-	(144,880)	628,102
Total current liabilities	<u>1,303,244</u>	<u>215,522</u>	<u>(197,319)</u>	<u>1,321,447</u>
<u>NOTES PAYABLE, LONG-TERM</u>	<u>555,563</u>	<u>9,500,000</u>	<u>(6,650,000)</u>	<u>3,405,563</u>
	<u>1,858,807</u>	<u>9,715,522</u>	<u>(6,847,319)</u>	<u>4,727,010</u>
<u>NET ASSETS</u>				
Unrestricted	27,555,078	(834,148)	-	26,720,930
Temporarily restricted	568,845	-	-	568,845
Total net assets	<u>28,123,923</u>	<u>(834,148)</u>	<u>-</u>	<u>27,289,775</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 29,982,730</u>	<u>\$ 8,881,374</u>	<u>\$ (6,847,319)</u>	<u>\$ 32,016,785</u>

SCHEDULE 2

**NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.
CONSOLIDATING STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2013**

	New Orleans Area Habitat for Humanity, Inc.	NOAHH MC, Inc.	Eliminations/ Reclassifications	Consolidated
<u>REVENUE AND OTHER SUPPORT</u>				
Contributions	\$ 1,541,551	\$ -	\$ -	\$ 1,541,551
Home sale revenue, net of discount	1,831,346	-	-	1,831,346
Grant income	1,484,121	-	-	1,484,121
Gain on settlement of drywall claims	6,532,224	-	-	6,532,224
Interest income on mortgage notes	236,099	-	-	236,099
Investment income	(102,222)	-	(67,423)	(169,645)
ReStore income	1,311,582	-	-	1,311,582
Gain on sale of mortgage notes	492,665	-	-	492,665
Other income	485,910	105,000	-	590,910
Total revenues and other support	<u>13,813,276</u>	<u>105,000</u>	<u>(67,423)</u>	<u>13,850,853</u>
<u>EXPENSES</u>				
Program services	8,431,722	430,865	(67,423)	8,795,164
Management and general	490,480	-	-	490,480
Fundraising	376,331	-	-	376,331
Total expenses	<u>9,298,533</u>	<u>430,865</u>	<u>(67,423)</u>	<u>9,661,975</u>
<u>CHANGE IN NET ASSETS</u>	4,514,743	(325,865)	-	4,188,878
Net assets, beginning of year	<u>23,609,180</u>	<u>(508,283)</u>	<u>-</u>	<u>23,100,897</u>
Net assets, end of year	<u>\$ 28,123,923</u>	<u>\$ (834,148)</u>	<u>\$ -</u>	<u>\$ 27,289,775</u>

NEW ORLEANS AREA HABITAT FOR HUMANITY, INC.

Single Audit Report

June 30, 2013



A Professional Accounting Corporation

www.pncpa.com

New Orleans Area Habitat for Humanity, Inc.

Single Audit Report

June 30, 2013

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors and Officers
New Orleans Area Habitat for Humanity, Inc.:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of New Orleans Area Habitat for Humanity, Inc. (a nonprofit organization) (NOAHH), which comprise the consolidated statement of financial position as of June 30, 2013, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 25, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered NOAHH's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of NOAHH's internal control. Accordingly, we do not express an opinion on the effectiveness of NOAHH's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NOAHH's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Organization in a separate letter dated November 25, 2013.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Post Lettrwaite & Netterville

New Orleans, Louisiana
November 25, 2013

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Directors and Officers
New Orleans Area Habitat for Humanity, Inc.:

Report on Compliance for Each Major Federal Program

We have audited New Orleans Area Habitat for Humanity, Inc.'s (NOAHH) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of NOAHH's major federal programs for the year ended June 30, 2013. NOAHH's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of NOAHH's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about NOAHH's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of NOAHH's compliance.

Opinion on Each Major Federal Program

In our opinion, NOAHH complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of NOAHH is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered NOAHH's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on

compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of NOAHH's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the consolidated financial statements of NOAHH as of and for the year ended June 30, 2013, and have issued our report thereon dated November 25, 2013, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Post Letrewhite & Nettville

New Orleans, Louisiana
November 25, 2013

New Orleans Area Habitat for Humanity

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2013

<u>Federal Grantor/Pass-Through Grantor/ Program Title/Grant Name</u>	<u>Federal CFDA Number</u>	<u>Grant Number/ Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development:			
Pass-through program from:			
Louisiana Housing Finance Agency (LHFA)			
Habitat for Humanity of Louisiana State Support Organization, Inc.			
CDBG Entitlement Grant Program	14.218	Not applicable	<u>\$ 1,387,753</u>
Total Federal Grant Expenditures			<u><u>\$ 1,387,753</u></u>

See accompanying notes to the schedule of expenditures of federal awards.

New Orleans Area Habitat for Humanity, Inc.

Notes to Schedule of Expenditures of Federal Awards

June 30, 2013

1. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards of New Orleans Area Habitat for Humanity, Inc. (NOAHH). The NOAHH reporting entity is defined in Note 1 to the consolidated financial statements for the year ended June 30, 2013. All federal awards received directly from federal agencies are included on the schedule, as well as federal awards passed-through other government agencies.

2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 1 to NOAHH's consolidated financial statements for the year ended June 30, 2013.

3. Relationship to Financial Statements

Federal expenditures of \$1,387,753 are reported as follows:

Cost of homes sold	<u>\$ 1,387,753</u>
Total federal expenditures	<u><u>\$ 1,387,753</u></u>

4. Relationship to Federal Financial Reports

Amounts reported in the Schedule of Expenditures of Federal Awards agree with the amounts reported in the related federal financial reports.

New Orleans Area Habitat for Humanity, Inc.

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

(1) Summary of Auditors' Results

Financial Statements

The type of report issued on the financial statements: unmodified opinion

Internal control over financial reporting:

- Material weakness(es) identified? no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? none reported

Noncompliance material to the financial statements noted? no

Federal Awards

Internal controls over major programs:

- Material weakness(es) identified? no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? none reported

Type of auditor's report issued on compliance for major programs: unmodified opinion

Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133? no

Major programs:

United States Department of Housing and Urban Development:

Passed through the Louisiana Housing Finance Agency (LHFA)	
Community Development Block Grants/ Entitlement	
Grants	14,218

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: no

New Orleans Area Habitat for Humanity, Inc.

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*: **none**

(3) Findings and Questioned Costs relating to Federal Awards: **none**

To the Management and
Board of Directors of
New Orleans Area Habitat for Humanity, Inc.
New Orleans, Louisiana

In planning and performing our audit of the consolidated financial statements of the New Orleans Area Habitat for Humanity, Inc. (a nonprofit organization)(the Organization) as of and for the years ended June 30, 2013 and 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The items listed below summarize our comments and suggestions regarding those matters. This letter does not affect our report dated November 25, 2013 on the consolidated financial statements of the Organization. The Organization's responses to our comments are described below. We did not audit the Organization's responses and, accordingly, we express no opinion on the responses.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Organization personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

2013-1 Cash Disbursements

The Organization currently requires only one signature on all checks disbursed. A limit should be established whereby checks disbursed over a certain amount require two signatures. Management and the audit committee should consider a limit that is appropriate to the size of the Organization's disbursements. Such dual signature requirements would help limit potential loss from defalcation of cash or erroneous payments.

Management's Response

We are proposing to the Board of Directors that all checks written which equal or exceed \$15,000 will require two signatures. This policy will be place in effect immediately after approval.

2013-2 Credit Card Policy

The Organization has two credit cards issued in the Organization's name for use to purchase business related items. Credit cards should be issued only to staff in which their use of the card is essential to the performance of their duties on behalf of the Organization. To ensure proper usage of these cards, management should establish a review process whereby supporting documentation, such as receipts, is required and someone in management reviews and approves all purchases.

Management's Response

We only have one credit card (Visa) which is used and it is kept in the accounting office. If the card is removed from the office, Evan makes a note of who has it with the date. If it is returned without a receipt that individual is no longer allowed to use the credit card. Evan matches the credit card receipts to the statement and Lisa Farris reviews the statement before Evan pays online. The second card is a Lowe's credit which is also kept in the accounting office, but is never used. If that card was used similar procedures would be performed.

Post letewate & Netterville

New Orleans, Louisiana
November 25, 2013